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SUBJECT: EU AID/TRADE FOR NORTH CYPRUS STALLS

REF: A. USEU BRUSSELS 3778

1B. USEU BRUSSELS 3225

Classified By: USEU/POL Harry O'Hara, reasons 1.4 b/d.

11. (C) Summary: EUR DAS Kennedy's Brussels consultations coincided with an important September 2 COREPER meeting in which EU member states were unable to find a way to move the Commission's proposed trade preferences for Northern Cyprus ahead -- leaving the EC's trade/aid package effectively frozen for now. The Dutch Presidency might have to delink trade and assistance in order to get the assistance through. The Commission and the Turkish Mission to the EU are concerned that delinking the packages might have a negative impact on those in the North who voted for reunification. On the other hand, there is broad understanding that a nasty public spat among EU member states over North Cyprus could spill over, and adversely impact this fall's intense debate on whether to offer EU accession talks to Turkey. End Summary.

12. (C) On September 2, EUR DAS Kennedy met key European Commission officials involved in the formulation of the EC's trade and assistance package for North Cyprus and in the preparation of the EC's October 6 Report for Turkey. (Turkey discussions ref A.) Kennedy also met with Turkish Mission to the EU officials, Council Secretariat officials including Director General Robert Cooper and, via a telephone conference, with Dutch MFA European Affairs Official Pieter de Gooijer. During her visit, the EU Perm-Rep Ambassadors also discussed the Commission's proposed trade and aid proposals for North Cyprus at their September 2 COREPER (EU decision making body made up of the EU member state Perm-Reps assigned to the EU) meeting. Both Commission and the Council Secretariat officials expressed concern over Cypriot

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resistance to EU trade preferences to North Cyprus.

Trade preferences in trouble

13. (C) Pierre Mirel (please protect throughout), DG-Enlargement head of unit for the Cyprus Task Force, expressed worry to Ambassador Kennedy that the EU member states will not/not extend EU trade preferences to North Cyprus. He was concerned that this blockage will undercut pro-unification forces in North Cyprus, particularly Talat. Though he had no evidence that Denktash is interested in running again in next elections in North Cyprus, he felt that direct trade with the EU was absolutely critical to show those who supported the Annan plan that they would get "something" from the EU for their efforts. He noted that the EU's 259 million Euro aid package to North Cyprus (over three years) will take much longer to show "visibility" than trade. Mirel wondered if this "visibility" of trade, when compared to the slower disbursement of an aid package, is why the Greek Cypriots are so vigorous in their opposition to the trade preferences. Nonetheless, he also expressed concern that the Greek Cypriots might "stall" the aid package until they get assurances from the other member states in the Council that the trade part of the deal is "dead." (Mirel was speaking to us even before the COREPER discussion on Cyprus had taken place.) Kennedy urged the Commission to continue to pursue their proposed measures for the Turkish Cypriots, even if the measures were ultimately not realizable, in order to send a positive signal to Talat and prevent Papadoupolos from becoming further emboldened in the run-up to the December vote on Turkey's EU accession. She noted this would maintain awareness among EU member states that the Greek Cypriots were the obstructionists in these efforts.

Dutch opposed to unbundling trade and aid

14. (C) Dutch MFA official De Gooijer said that the Dutch Presidency wants to go ahead with both trade and aid. The Cypriots had told him, he said, that they could "live" with aid but hold "considerable concerns -- even objections -- to direct trade." In Cyprus, they had told visiting Dutch Minister for European Affairs Atzo Nicolai that they want to be "flexible" on the North -- though it remains unclear what they are prepared to be flexible about.

"Hiding" behind dueling legal interpretations?

15. (C) Mirel told us that some member states are hiding behind the current disagreement between the Commission and the Council Legal Services over the legal basis of EU trade preferences for North Cyprus. (ref B). This disagreement allows some member-states (he specified Italy, Germany, and France) to avoid weighing in on this issue. He also said that Cyprus has been very active in working member states to get support, not only for their position, but also to get their "solidarity." In this context, "solidarity" for Cyprus would mean that other member-states would join up with Cyprus so as to prevent a "new" member state from being isolated or "embarrassed" in a public and open fashion. He suggested that other member-states might also be sympathetic to a "small" state standing up for what it believes in and might decide to support Cyprus on this basis. States might also link the Cyprus problem to their own unique concerns (i.e. Spain and Gibraltar) and side with Cyprus in the hopes they are spared from a similar situation later on. In light of these potential internal EU sentiments, Mirel told us that it is hard to see how the Commission's interest in extending trade preferences to North Cyprus can move in a positive direction.

Possible next steps on Cyprus; spill-over on Turkey

16. (C) Mirel wondered if the Dutch Presidency might decide, or feel compelled, to decouple the aid package and the trade preferences at the end of September or beginning of October. To avoid this, he understood that some in the Commission seem to believe that by letting the Cypriots "win" the argument over which legal service advice to follow (i.e. go with the Council ruling that it should be consensus, and not qualified majority voting, for trade preferences to North Cyprus), Nicosia would be inclined to accept trade preferences. Mirel expressed skepticism that giving the Cypriots what they want in this area would move Cyprus to accept trade in any case. Enlargement Director General Fabrizio Barboso told DAS Kennedy that Turkish FM Gul had written to CFSP High-Rep Solana asking that the trade and aid packages not be delinked. In discussions with key Solana advisor, Robert Cooper, he suggested a blow-up among the member-states over North Cyprus could endanger a positive EU judgment on offering accession talks. Cooper suggested that this could affect strong Greek support for Turkey and could also lead the Dutch to postpone the trade part of the North Cyprus deal until after Turkish accession issues are settled this fall.

17. (C) Mirel suggested that Turkey's decision to limit its customs union to the "EU-minus Cyprus" had been a mistake. He wondered, however, whether Cyprus would permit aid to go ahead even with an accommodation by Turkey on this. Currently, Cyprus has been working to modify the Commission's aid proposal and to introduce new concerns about it. The Cypriots are now asking the Commission to exclude any assistance to public administrators in North Cyprus, to provide guarantees that no Commission money will go to "contested properties," and that the EC not "sign" any documents that would provide any kind of implicit recognition of North Cyprus or its officials. Turkish diplomatic officials here told Kennedy that Ankara would be ready to find a way to extend their current Customs Union with the EU to all 25 members, but feel that they need to get something in return. Kennedy urged that Turkey not delay on this issue.

The Greek/Turkey Factor

18. (C) Mirel said that one factor working against asking the Greeks to lean on the Cypriots to solve the current impasse is the wider Turkish game. Greece needs Cyprus to agree to offer Turkey a date for EU talks, and does not want to do anything to get in the way of this critical Greek political objective. De Gooijer also told us that during his visit, Dutch Minister Nicolai told the Cypriots that the EU expects the Greek Cypriots to keep their concerns about North Cyprus "bilateral" and not carry them out "at the expense of EU-25 decisions on Turkey." De Gooijer also said that the Dutch Prime Minister had urged Greek PM Karamanlis not to let Greek/Turkey bilateral issues become problems in the EU's relationship with Turkey. The Dutch have also been telling the Turks to avoid controversial actions, including at the forthcoming Organization of Islamic Conferences (OIC) meeting, where the Northern Cypriots will allegedly be described as the Turkish Cypriot state. In a separate conversation with Turkish Mission to the EU Ambassador Demiralp, Demiralp denied that this was the case and emphasized that the Northern Cypriots were part of the organization under the name of the Turkish Cypriot constituent state, a name drawn from the Annan plan.

EU Cyprus Package Stalls; "political" decision next?

19. (C) In the end, Cyprus did hold tough at the COREPER

meeting, and no EU member state was willing to push them to back off. EU-Enlargement Director-General Barboso and his staff members told Kennedy that the Commission legal service was asked to write another paper analyzing the Council's legal opinion. Some member-states had proposed a contact group meeting and others suggested a trip to Cyprus. In light of Dutch Minister Nicolai's recent visit, neither idea went anywhere at COREPER. Another idea that was floated at COREPER, per Barboso, was taking this to the EU Foreign Ministers at the September 13-14 General Affairs and External Relations Council (GAERC) on the grounds that it is becoming a political decision. Barboso noted that this could really open the discussion on North Cyprus in an unpredictable fashion with a different set of interlocutors. But, he said, for him the most important thing to come out of COREPER is an understanding that the EU differences are "political," not "legal."

10. (C) Cooper agreed that the North Cyprus problem is no longer legal but is political. Cyprus continues to oppose direct trade links, and remains "quiet" on the EU's 259 million Euro assistance package to North Cyprus. Cooper said that the EU lacks a strategy for reunification of Cyprus; rather what the EU has is trade/aid package that is a "reward" to North Cyprus for its recent vote for reunification. Ambassador Kennedy noted the importance maintaining the linkage in the trade/aid package, and advised against dropping either or both parts of the package, noting this strategy helps keep hardliners from reemerging in North Cyprus. Cooper replied that the EU has made a commitment to North Cyprus that will not be dropped. However, timing is also important and the EU doesn't want a political battle over North Cyprus, if this could hurt Turkish membership in the EU.

Gloom?

11. (C) Our gloomy Commission interlocutors characterized COREPER as "frozen" and the GAERC route as a "dangerous option." Barboso concluded that COREPER opened up a "new wrinkle of uncertainty" on Cyprus.

12. (U) EUR DAS Kennedy cleared this message.

Schnabel